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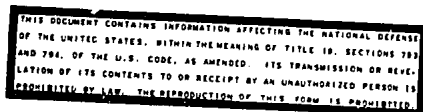
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METHOD USED FOR COMPILATION OF PRICE INDEXES
IN NORTHEAST CHINA

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In October 1950, the Northeast began the selection of a cumulative formula for the compilation of price indexes. It is now possible to compile on a 10-day or 30-day basis the private wholesale price indexes for the ten major cities and municipalities. The monthly indexes are compiled and will be published in the newspapers on 10 October. Experience indicates that the conditions are almost complete for using these cumulative price indexes in the Northeast. In this article, we will discuss two important points in the development of this system and several aspects of the past experience in using this system.

First, this system has been selected on the basis of a scientific analysis of the problem of compiling index figures and an analysis of whether or not such a scientific system of figures could be devised. Prior to 1951, many different kinds of index figures were in use in the Northeast. However, because of the difference in calculating price indexes and in figuring raw materials, the final index figures were also quite varied. For this reason the Northeast People's Government asked the Northeast Statistical Bureau to develop a unified system of compiling price indexes that would reflect price conditions prevalent in the Northeast.

Upon receipt of this commission, the Statistical Bureau experimented with several different kinds of indexes. The final choice was the Cumulative Index Method, i.e., "price during calculated period times sales volume during calculated period" divided by "price during base period times sales volume during base period."

- 1 -

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By using this cumulative formula it is possible to ascertain transition stages in commodity prices as well as the transition stages in total expenditures which may be brought about by the price fluctuations. The total expenditures here does not mean total currency flow but is an amount derived by multiplying total currency flow by rate of currency flow. In using this method, it is first necessary to gather material on base period prices and material on prices and sales volume during the calculated period, after which the actual computations are relatively simple. For this reason, the successful operation of this new method depends on the ability of the computers to accumulate all the necessary data.

At present, the groundwork has been completed for Northeast statistical work. All the state-operated enterprises now have regular records. Many private enterprises now have regular inspections to meet the special needs of their business. For statistics on volume of sales, there is the basic system of commodity exchange statistics. At present these statistics are about 90 percent commodity sales recorded by item. Thus, it is possible to say that the conditions for use of the Cumulative Index Method for compilation of price indexes are generally completed. However, the new system must be better organized with a division of responsibilities than the present systems. Also, it will record prices and sales volume for only important items instead of for all items.

The institution of the cumulative index in the Northeast is not only necessary but possible. We shall select a concrete method of operation based on existing conditions. This proposed operational method can be used as a guide in future compilations of price index figures.

The second point to consider regarding the development of this system is that it is a product of struggle. Selection of the cumulative index is the most scientific and suitable thing to do; this fact has been proved by the experience of the Soviet Union. However, the birth of a new system is not easy. It is accompanied by much opposition, especially from those too much influenced by bourgeois thinking. Nevertheless, in our efforts we can clarify and develop the meaning and advantages of this system, thus increasing our understanding of the principles. At the same time, actual operation of the plan will enable us to improve from experience. This means that discussion will stimulate action and action will in turn enrich the theoretical discussions.

Now let us examine the principal points to be discussed and see what are their solutions.

1. Scope of Commodity Types

Theoretically, all items of commerce should be included in the calculation of the cumulative price index. This is because the more complete the list of commodities, the more accurate will be the description of price fluctuations. Those opposed to this system will say that such an over-all inclusion is impossible and we must agree that at present it is impossible to include everything in our computations. This, however, is not a defect of the cumulative index system but is merely a compromise with the present situation. There are two factors in our solution of the immediate problem: one is the inclusion of all the important items and the second is the use of broad commercial categories.

The scope of the important items should be determined from an analysis of market prices on given commodities in a given city during the most recent period. The list of important items should be increased in accordance with the increase of commodities in trade. As we expand to include more and more items in our calculations, our index figures will become more reliable and meaningful.

- 2 -

RESTRICTED

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On the surface this new system is very much like the old system, but in substance the two are completely different. This is because the old system did not allow for any changes after the selection of commodities, thus causing the figures to become unrepresentative. The cumulative formula will more clearly reflect the market changes.

The term important items is not a reference to the simple individual item, but is closely concerned with broader commercial categories. This is because a given commercial item frequently includes in its category many related items which actually form a homogenous group. However, within these groups one item is often of such importance that it is sufficient to represent the other items of the group in the compilation of the index figures. Generally this is not the case, and when we have selected some 100 major categories we have actually included several thousand items in our calculations.

2. Reliability of Private Commercial Statistics

Due to the lack of flexibility in the old system of index figures, the private companies could not possibly publish figures which are as reliable as those published under the cumulative formula. Moreover, private firms actually did not want to publish the true figures. This problem is not insoluble since many types of commodities, e.g., food and yarn, must pass through control offices where it is possible to derive exact statistics. Also, local unions and industrial organizations can work to raise the reliability of the private statistics. Tax figures can be used to check on the reports from these private firms.

In careful checks conducted in Mukden in the spring of 1952, comparing private commercial reports with the records it was found that discrepancies amounted to about 5 percent of the total studied. According to tax bureau data the percentage of accuracy was 98.1 in the chemical industry, 99.6 in the metal industry, and 96.7 in hardware sales. This shows that the problems are far from serious.

3. Close Schedules for Compilation of Cumulative Indexes

It has been said that such a complicated and inclusive system cannot possibly be calculated according to a fixed schedule. However, by collecting the information from the private concerns once every month and working diligently to compile the indexes before the tenth of the following month, it will be possible to publish the index figures on schedule. It is possible to use the figures from the preceding month in case data for the present month have not been received. This, of course, does not afford such complete accuracy but it still offers a fair indication of the existing situation. It makes the system much more reliable than the use of year-old (or even several years old) data as fixed indexes.

4. Categorization of Commodities Showing Seasonal and Regional Fluctuation

Persons familiar with the old index figures realize that they were unreliable for the comparison of conditions within different regions. The new system eliminates this problem by multiplying the price of an item by the total volume of trade of this item within a given area. In this way the indexes will more properly represent conditions within a given region.

5. Selecting Important Commodities

In discussing the problem of picking out the important commodities when too many items are included in the index lists, it has been claimed that comprehensive lists will be too complicated and that only the important items should

- 3 -

RESTRICTED

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be included. However, on the new listings all the important items will be included and can be selected from among the other items. Furthermore, from the complete lists it is possible to watch the fluctuations of all items and keep close touch with market conditions.

During the period of selection of a new index system (in the spring of 1951) there was much debate of all the above points; also a trial run of the new system was successfully completed in Mukden. After further discussion the system was put into actual practice in the various important municipalities.

Some of points brought out in experiences with this new system are discussed below:

1. The scientific method must be strengthened. It has already been established that the cumulative formula is the most scientific and the most suitable. However, if the system is not coordinated with conditions in China it will still not be workable. For instance, in the Soviet Union there is no problem of obtaining accurate figures from private concerns but in China we will still be faced by this problem.

2. Separation of duties and cooperation must be organized. Experience shows that the work connected with this system cannot all be done by the Statistics Bureau. It will have to be divided.

Local trade offices will have to make scheduled reports to the local statistical bureaus regarding the material requisite for compilation of the indexes.

A unified commodity prices examination committee for the gathering of the needed statistical material from private concerns. Examination work will be organized and supervised by this committee.

Volume and value of trade for the various commodities will be reported by each concern to the industrial association concerned. These associations will in turn report to the Department of Commerce and Industry. This department will report the information to the Statistics Bureau.

Each local statistics office will compile the index figures for the province or municipality and the Northeast Statistics Bureau will use these figures for the compilation of index figures for the Northeast.

3. Utilization of the system shall proceed from the specific area to the general. After instituting the system in Mukden and gaining experience there, the system will gradually be extended to the other cities (Harbin, Kirin, Chinchou, Ch'i-ch'i-ha'erhj, and Dairen). As of July 1951, it is already possible to compile private wholesale indexes of this type by 10-day period and by month for the ten major cities (those named before plus An-tung, Ch-ang-ch'un, Mu-tan-chiang, and Chia-mu-ssu). Since these cities represent distinct economic areas, the system already reflects the entire range of price fluctuations in the Northeast.

As a result of the first steps in this work, every province has compiled index figures for several cities and hsien. At present, in all the Northeast, 31 large cities and municipalities compile price indexes of all kinds. Among these, 16 publish private wholesale price indexes, 11 publish state-controlled trade wholesale price indexes, 14 publish state-controlled retail price indexes, and 11 publish private retail price indexes. This shows clearly that each separate area, as well as the Northeast as a whole, is covered in the figures.

- 4 -

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The indexes to be published will include state-controlled wholesale trade, state-controlled retail trade, private wholesale trade, and private retail trade. The order of expansion will be from private wholesale to state-controlled wholesale, then to state-operated retail, then private retail trade, until all four sectors are included. This too shows the expanding nature of our policy of instituting the new system.

4. We must solve the concrete problems of examination, assistance, and elimination of difficulties. In any new operation, problems will be met in the management of various aspects. Special care must be taken to solve these problems as they arise in our new index compilation. Already people have been sent at various times to the main large cities to assist in the solving of problems.

These experiences show us that even after the institution of the new system it will not be possible for us to sit in our offices and expect the system to operate automatically. The work of examination, assistance, and elimination of various problems will need constant attention.

As a final point it must be stated that although this new system of cumulative indexes has had definite success, it has not been fully perfected. Our shortcomings are still numerous. First, the examination of important commodities is quite insufficient. Second, we are unable to make a fully satisfactory analysis of price fluctuations. We can only publish the actual prices and not state why prices are such or what causes the fluctuations. These problems require our continued study and effort.

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- 5 -

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